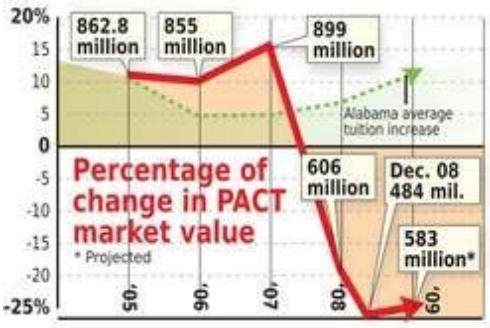
back to article

PACT program faces financial crunch

By Brian Reynolds Staff Writer
Published: Tuesday, March 3, 2009 at 4:07 p.m.



As tuition and fees have steadily risen at the University of Alabama, Jeff Grice, a junior, hasn't had to worry. He's participating in the state's Prepaid Affordable College Tuition program.

The Jasper native's two sisters, Emma, a freshman, and Jenny, a graduate student in applied statistics, have joined him at UA. And in anticipation of this situation, Grice's parents began investing in the PACT program shortly after its inception in 1990.

"[My parents] said it was less expensive when we were kids than it is now," Grice said. "It's especially important like we are now. All three of us are in college at the same time. That would be impossible if it wasn't for the PACT."

But the program that has helped put the Grice family through college may be in trouble. PACT program funds are invested in the stock market, which has been in a dramatic free fall over the past several months.

From Sept. 30, 2008 to Dec. 31, 2008, the fund's market value fell from $605,726,831 to $483,895,359, from a 2007 high of close to $899 million. Not counting tuition payments, the fund lost $96,923,285 of market value during that four-month period, said Gregory G. Fitch, executive director of the Alabama Commission on Higher Education. During the same period, the stock market fell over 2,000 points and has lost an additional 2,000 points since.

"When this was designed and it was set up, it was designed on a very positive market to keep it there," Fitch said. "And it's been very well managed. It was a good idea and good plan and was very positive. It worked great for 18 years."

The program was designed by the state legislature in 1990 and allows people to pay for future college tuition at the current price. It also allows investors to avoid

paying taxes on the money invested in the fund.

The loss in fund value has combined with other key aspects to put the PACT program in a tough situation. Rising tuition and fees, and increased college enrollment has also stretched the trust fund.

During the 2008 fall semester, 2,700 students enrolled in the Auburn University system and 3,700 in the University of Alabama system. Fitch expects that number to increase. College enrollment in the state is up 3.5 percent and historically tends to increase during recession periods.

He said children born in the mid 1990s will soon be entering college. “We’ll have our highest growth in demand,” he said. “That large group will be moving into our colleges. It’s kind of like the baby boom; there will be an influx. It will be a dramatic stress to the program.”

While the 2008 financial crash is considered the worst in decades, the PACT fund has seen problems in the past. During the recession at the beginning of the decade, the fund fell 13.5 percent in 2001 and 10.2 percent in 2002. It recovered and increased by 17.13 percent in 2003 and rose steadily through 2007.

Fitch and others have met with university officials, including University of Alabama System Chancellor Malcolm Portera and Auburn University System President Jay Gogue, to discuss the issues plaguing the fund. Both had positive reactions and have offered the assistance of their financial officers, Fitch said.

“We’re trying to bring as many people, as many experts as we can in that, because our primary concern is to keep students in school,” he said. “These students in our schools are an asset to the state.”

Alabama State Treasurer Kay Ivey recently sent letters to the 48,000 families enrolled in the PACT program, notifying them of the fund’s troubles, but assuring them that that work is being done to keep the program viable.

“If the program fails, there are no guarantees on the investment. It’s not like a bank deposit,” Fitch said. “If that were to occur — and that’s not what we’re intending, we’re trying to work through this — it would be dramatic for the families, because they we’re working on projections.”

Grice said his family has sent three children to UA under the assumption that the PACT program would be there to support them. He said they are lucky that two of them are nearly finished with school.

“Obviously, if that’s the way someone’s parents planned on funding their college, it

could be disastrous," Grice said. "It could put people in the dire financial situation of having to pay off high-interest loans later on. And the way things are going, I don't know how much more of blow we can take financially. Another hit like this will make it even worse, especially for my youngest sister."